

Message Text

PAGE 01 STATE 038558
ORIGIN EB-08

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EUR/RPE - ECASEY (DRAFT)
STR - MBSMITH (DRAFT)
COMMERCE - RSHEPHERD (DRAFT)
LABOR - EHABBERTON (DRAFT)
TREASURY-WBARREDA (DRAFT)
EB/ORF - SWBOSWORTH
EB/ORF/ICD - EAWENDT

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FM SECSTATE WASHDC
TO USMISSION EC BRUSSELS PRIORITY
AMEMBASSY BONN PRIORITY
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AMEMBASSY THE HAGUE PRIORITY
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PAGE 02 STATE 038558

E.O. 11652: N/A

TAGS: ETRD, GATT

SUBJECT: MFA RENEWAL.

SUMMARY: SINCE 1974, DEVELOPED AND DEVELOPING COUNTRIES
HAVE LARGELY AVOIDED POLITICAL SPILLOVER FROM THE
SENSITIVE TEXTILE TRADE ISSUE BECAUSE OF THE EXISTENCE
OF AN INTERNATIONALLY AGREED UPON SET OF RULES FOR

DEALING WITH TEXTILE TRADE PROBLEMS (THE GATT ARRANGEMENT REGARDING INTERNATIONAL TRADE IN TEXTILES OR MFA). HOWEVER, THE PROSPECT THAT THE THORNY TEXTILE TRADE PROBLEM WILL BE THRUST INTO THE MAINSTREAM OF THE NORTH-SOUTH DIALOGUE LOOMS DIRECTLY AHEAD. CERTAIN IMPORTING COUNTRIES, OF WHOM THE EUROPEAN COMMUNITY IS PREDOMINATE, APPEAR DETERMINED TO TIP THE CURRENT BALANCED AGREEMENT TOWARD A MORE RESTRICTIVE OVERALL FRAMEWORK FOR INTERNATIONAL TEXTILE TRADE. WHATEVER THE APPEAL SUCH A MOVE TO TEXTILE INTERESTS IN THOSE COUNTRIES, IT THREATENS SERIOUS DAMAGE TO THE BROADER ECONOMIC POLICY INTERESTS OF ALL DEVELOPED COUNTRIES. TO CARRY OUT THIS ADMINISTRATION'S OBJECTIVES IN RESPECT TO IMPROVEMENT OF RELATIONS WITH

DEVELOPING COUNTRIES, WE MUST MAKE POLITICAL AND ECONOMIC POLICY MAKERS AT THE HIGHEST LEVELS IN BOTH THE COMMISSION AND THE MEMBER STATES AWARE OF THE CRITICAL NEED FOR IMMEDIATE RESOLUTION OF THE MFA RENEWAL ISSUE. END SUMMARY.

1. IN DECEMBER, 1976, THE MEMBERS OF THE GATT TEXTILE COMMITTEE (TC) MET IN GENEVA TO CONSIDER WHETHER THE MFA SHOULD BE EXTENDED, MODIFIED, OR DISCONTINUED PAST ITS DECEMBER, 1977 EXPIRATION DATE. DURING THE LAST HALF OF 1976, THE US HAD URGED BOTH IMPORTING AND EXPORTING LIMITED OFFICIAL USE
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PAGE 03 STATE 038558

COUNTRIES TO AGREE TO PROMPT RENEWAL OF THE ARRANGEMENT WITHOUT SUBSTANTIVE CHANGE. US POSITION BASED ON OUR BELIEF THAT SIMPLE RENEWAL IS THE ONLY FEASIBLE WAY TO AVOID THE UNDESIRABLE ECONOMIC EFFECTS OF INSTABILITY IN TEXTILE TRADE AND THE POLITICAL CONSEQUENCES OF A DEVELOPED - DEVELOPING COUNTRY CONFRONTATION ON THIS SENSITIVE ISSUE. AT THE DECEMBER TC MEETING, THE UNITED STATES AND ALL LDC EXPORTING COUNTRIES EXPRESSED WILLINGNESS TO SEE THE MFA RENEWED IN ITS PRESENT FORM. HOWEVER, THE EC, INITIALLY IN ISOLATION, BUT LATER WITH THE SUPPORT OF CANADA AND AUSTRIA, ASKED FOR FURTHER CONSIDERATION OF CERTAIN FEATURES OF THE MFA WHICH IT BELIEVES RENDER THE ARRANGEMENT INADEQUATE TO MEET ITS NEED FOR PROTECTION FROM THE IMPACT OF TEXTILE IMPORTS.

2. GATT DIRECTOR LONG AGREED TO CONVENE THE TC AGAIN ABOUT THE END OF FEBRUARY TO FURTHER CONSIDER THE IMPORTING COUNTRIES' CONCERNS. DATE HAS BEEN PUSHED BACK TO MID-MARCH, LARGELY BECAUSE OF EC INABILITY TO REACH POSITION ON ISSUE BY ORIGINALLY SCHEDULED DATE. MAJOR IMPORTING AND EXPORTING COUNTRIES MET INFORMALLY ON JANUARY 18 AND FEBRUARY 16

TO DETERMINE IF THERE COULD BE A CONSENSUS FOR RENEWAL AT THE MARCH TC MEETING. AT THESE MEETINGS, THE EC AND CANADA STATED THAT THEIR POSITION HAD NOT MATERIALLY CHANGED SINCE NOVEMBER. IN BILATERAL CONTACTS, THESE COUNTRIES HAVE INFORMED THE US THAT THEY DO NOT BELIEVE THEY CAN ACCEDE TO MFA RENEWAL WITHOUT SOME CHANGE OR INTERPRETATION TO MEET THEIR EXPRESSED CONCERNS. THE EC COUNCIL OF MINISTERS WAS EXPECTED TO APPROVE THE COMMUNITY'S FINAL POSITION ON RENEWAL AT ITS MARCH 8 MEETING, BUT SOME SOURCES

NOW INDICATE THAT COUNCIL MAY NOT BE ABLE TO ADDRESS THE ISSUE AT THAT MEETING. IF THIS TRANSPIRES, NOT LIMITED OFFICIAL USE LIMITED OFFICIAL USE

PAGE 04 STATE 038558

ONLY WOULD FURTHER DELAY ENSUE, BUT EXPORTING COUNTRIES WOULD CALL INTO QUESTION THE GOOD FAITH AND INTENTIONS OF THE COMMUNITY (AND PERHAPS ALL IMPORTING COUNTRIES).

3. DEVELOPING COUNTRIES HAVE A CRITICAL ECONOMIC INTEREST IN AVOIDING MORE RESTRICTIONS ON TEXTILE TRADE. IN UNCTAD, CIEC AND GROUP OF 77 MEETINGS, DEVELOPING COUNTRIES HAVE REPEATEDLY OPPOSED EXPORT RESTRAINTS ON THEIR MANUFACTURED GOODS, AND HAVE CALLED FOR THE TERMINATION OF THE MFA AS SOON AS POSSIBLE. GIVEN THEIR PRESSING NEED FOR FOREIGN EXCHANGE TO MEET THE INCREASING COSTS OF RAW MATERIAL AND MANUFACTURED IMPORTS, CONTINUED GROWTH IN THEIR EXPORTS OF LABOR-INTENSIVE MANUFACTURES IS VITAL TO THEIR ECONOMIC SURVIVAL.

4. THE US IS WELL ACQUAINTED WITH THE ECONOMIC AND POLITICAL PROBLEMS EXPERIENCED BY IMPORTING COUNTRIES WHICH HAVE LED TO THE CURRENT PRESSURES FOR CHANGE IN THE MFA. THE ARRANGEMENT WAS NEGOTIATED IN 1973 AS A DELICATELY BALANCED COMPROMISE BETWEEN THE OBJECTIVES OF IMPORTING AND EXPORTING COUNTRIES. MEMBER COUNTRIES DID NOT EXPECT THAT IT WOULD IMMEDIATELY BE TESTED BY THE WORST WORLD-WIDE RECESSION SINCE THE 1930'S, AN ECONOMIC SLOW-DOWN WHICH HIT THE TEXTILE INDUSTRY ESPECIALLY HARD. ALTHOUGH THE WORST OF THIS RECESSION IS OVER, THE US GOVERNMENT, LIKE THE GOVERNMENTS OF OTHER IMPORTING COUNTRIES, FACES INTENSE TEXTILE INDUSTRY PRESSURE TO SEEK A MORE RESTRICTIVE MFA.

5. DESPITE THESE PRESSURES, THE US REMAINS FIRMLY COMMITTED TO IMMEDIATE RENEWAL WITHOUT SUBSTANTIVE CHANGE AS THE ONLY COURSE CONSISTENT WITH THE INTERESTS OF BOTH IMPORTING AND EXPORTING COUNTRIES. OUR POSITION IS BASED ON THE FOLLOWING CONSIDERATIONS:

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PAGE 05 STATE 038558

A. THE US IS SERIOUSLY CONCERNED THAT EXTENDED DELAY IN RESOLVING THE FUTURE OF THE MFA WILL RESULT IN THE INSERTION OF TEXTILE TRADE POLICY AS A CENTRAL ISSUE IN THE ALREADY COMPLEX AND DIFFICULT NORTH-SOUTH DIALOGUE. AT THIS CRITICAL STAGE IN THAT DIALOGUE, THIS ADMINISTRATION BELIEVES IT WOULD BE A

SERIOUS MISTAKE FOR THE INDUSTRIALIZED COUNTRIES TO BECOME EMBROILED IN AN UNCESSARY CONTROVERSY WITH THE DEVELOPING WORLD OVER TEXTILE TRADE. AND IN ADDITION TO THE POLITICAL IMPACT, SUCH DELAY COULD HAVE SERIOUS ECONOMIC CONSEQUENCES FOR BOTH DEVELOPED AND DEVELOPING COUNTRIES BY CREATING AN ATMOSPHERE OF INSTABILITY IN ONE OF THEIR LARGEST INDUSTRIES.

B. DELAY CAN ONLY SERVE TO WIDEN THE GAP BETWEEN IMPORTING AND EXPORTING COUNTRIES BY FUELING STRONG PROTECTIONIST PRESSURES IN THE COMMUNITY AND OTHER INDUSTRIALIZED COUNTRIES. THESE PRESSURES INEVITABLY FEED ON AND REINFORCE EACH OTHER, AND SPREAD BEYOND THE TEXTILE FIELD. CANADA'S RECENT ACTIONS UNDER ARTICLE XIX OF THE GATT, THE MOST SWEEPING SET OF RESTRICTIONS ON TEXTILES IMPOSED BY ANY IMPORTING COUNTRY IN THE PAST 20 YEARS, HAVE FURTHER INCREASED THESE PRESSURES. MEANWHILE, EXPORTING COUNTRIES HAVE REFRAINED FROM PRESSING THEIR DESIRES FOR A MORE LIBERAL MFA IN THE HOPE THAT THE BENEFITS OF STABILITY FROM QUICK RENEWAL WOULD OUTWEIGH THOSE FROM ANY LIBERALIZATION THEY MIGHT WREST FROM THE IMPORTING COUNTRIES. WHILE WE UNDERSTAND EXPORTING COUNTRIES REMAIN PREPARED TO ACCEPT AN UNCHANGED MFA, IF THE HOPE FOR EARLY RENEWAL FADES, THERE IS LITTLE PROSPECT THAT THEIR DEMANDS WILL BE HELD IN CHECK. IF THE INDUSTRIALIZED COUNTRIES ARE TO HAVE ANY CONTROL OVER SITUATION, THEY MUST ACT DEFINITELY AT TC MEETING EXPECTED IN MARCH.

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PAGE 06 STATE 038558

6. ABOVE DISCUSSION IS NOT MEANT TO IMPLY THAT THE US IS UNAWARE OF THE SERIOUS PROBLEMS FACED BY THE EC IN FORMULATION OF ITS POLICY ON MFA RENEWAL. HOWEVER WE ARE CONVINCED THE COMMUNITY HAS NOT ADEQUATELY RECOGNIZED AND EXPLOITED THE FLEXIBILITY OF THE MFA. THE FRAMEWORK OF THE MFA WAS NEVER INTENDED TO ANTICIPATE THE DETAILS OF EVERY TEXTILE TRADE PROBLEM. IT, NEVERTHELESS, PROVIDES ADEQUATE OPPORTUNITIES FOR TEXTILE

IMPORTING COUNTRIES TO PROTECT THEIR INTERESTS. SUCH EC NEEDS AS LOWER GROWTH RATES FOR IMPORT - IMPACTED CATEGORIES, THE PREVENTION OF "STALLING" BY EXPORTERS DURING NEGOTIATIONS, LIMITATIONS ON THE IMPACT OF THE LARGEST TEXTILE EXPORTING COUNTRIES -- CAN BE HANDLED UNDER THE CURRENT TERMS OF THE MFA. MANY IMPORTING COUNTRIES, INCLUDING THE EC, HAVE ALREADY

SUCCEEDED IN NEGOTIATING LOWER-THAN-AVERAGE GROWTH RATES ON SENSITIVE CATEGORIES WITH SEVERAL OF THE MAJOR EXPORTERS. THE MFA FRAMEWORK OFFERS AMPLE ROOM FOR FUTURE ADAPTATION TO MEET PARTICULAR TEXTILE TRADE PROBLEMS WHILE STILL MAINTAINING AN OVERALL CLIMATE FAVORABLE TO THE EXPANSION OF WORLD TEXTILE TRADE.

7. ACCORDINGLY, USEC IS REQUESTED TO MEET WITH COMMISSIONER HAFERKAMP TO PRESENT USG VIEWS AS OUTLINED ABOVE ON FUTURE OF MFA. (AMBASSADOR HINTON SHOULD FOLLOW UP WITH COMMISSION PRESIDENT JENKINS UPON THE AMBASSADOR'S RETURN TO BRUSSELS). MISSION SHOULD STRESS THAT US APPRECIATES PRESSURES WHICH HAVE IMPELLED COMMISSION TO SEEK CHANGES IN THE MFA, AND SUPPORTED FURTHER CONSIDERATION OF EC PROBLEMS IN THE TEXTILE COMMITTEE. (SEE GENEVA 1123 PARA 11). HOWEVER, IF THE COMMUNITY DOES NOT HAVE A MANDATE BY MARCH WHICH WILL PERMIT CONSTRUCTIVE RESOLUTION OF THE RENEWAL LIMITED OFFICIAL USE LIMITED OFFICIAL USE

PAGE 07 STATE 038558

ISSUE IT RUNS A RISK OF PROVOKING A FULL-BLOWN CONFRONTATION BETWEEN DEVELOPED AND DEVELOPING COUNTRIES OVER INTERNATIONAL TEXTILE TRADE POLICY AND SEEING ISSUE SPILL OVER INTO CIEC, MTN, UNCTAD AND OTHER FORUMS.

8. FOLLOWING CONFIRMATION OF USEC REPRESENTATIONS TO HAFERKAMP, EMBASSIES IN MEMBER STATES ARE REQUESTED TO REPORT US VIEWS AND REPRESENTATIONS TO HIGHEST APPROPRIATE POLICY LEVELS IN MINISTRY OF FOREIGN AFFAIRS, AND, IF APPROPRIATE, IN MINISTRY OF TRADE. FOR PARIS: DESPITE REPORTED INSISTENCE OF FRENCH ON AMENDMENTS TO MFA, EMBASSY PARIS SHOULD STRESS TO FRENCH FOREIGN MINISTRY OFFICIALS IMPORTANCE OF FRENCH FLEXIBILITY ON RENEWAL ISSUE, PARTICULARLY GIVEN FRENCH GOVERNMENT'S DEEP INTEREST IN THE NORTH/SOUTH DIALOGUE. FOR BONN: PLEASE CONVEY TO FRG OUR APPRECIATION FOR THEIR ROLE IN COMMUNITY DIALOGUE, BUT EMPHASIZE CONTINUING US BELIEF THAT CHANGES IN THE MFA ARE NEITHER NECESSARY TO PROTECTION OF IMPORTING COUNTRY INTERESTS NOR NEGOTIABLE WITHOUT DISPROPORTIONATE COSTS TO IMPORTING COUNTRIES. HARTMAN

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